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SUBJECT: CORRUPTION PLAGUES ANDHRA PRADESH'S BIG TICKET SPENDING PROGRAMS

11. (SBU) SUMMARY: Andhra Pradesh's ruling Congress party has been spending billions of dollars on social programs targeted at the "common man." The spending programs, though politically popular, have led to much talk that Chief Minister YSR Reddy's government is engaged in corruption beyond the norm for India. Opposition leader Chandrababu Naidu used the high-profile September 9 collapse of an under-construction overpass in downtown Hyderabad to argue that corruption is so rampant in the Congress government that it is endangering the state's citizens. Complaints of corruption seem unlikely to give the opposition much traction against the ruling Congress party, however. END SUMMARY.

CONSTRUCTION MISHAP BRINGS CORRUPTION CENTER STAGE

12. (U) On September 9, the collapse of an overpass which was under construction in central Hyderabad killed two people and injured several others. The collapse of the high-profile construction project in the heart of Hyderabad's commercial district gave the leader of the opposition TDP and former Chief Minister, Chandrababu Naidu, the opportunity to amplify his ongoing campaign of criticism against the ruling Congress party's "rampant" corruption in infrastructure projects. Visiting the scene of the collapse, Naidu reportedly blamed "corrupt practices" for the deadly incident. Naidu's attack touched a nerve with the Chief Minister. Reddy countered by alleging that Naidu had enriched himself during his tenure as Chief Minister and challenged the opposition leader to a joint investigation into their respective personal finances. Naidu rejected the challenge on the grounds that the proposed inquiry would not be fair.

CORRUPTION BEYOND THE PALE (EVEN FOR INDIA)?

13. (SBU) Reddy has used populist spending programs to great political effect. The government's massive housing and irrigation programs merit special attention. The housing program provides material, grants, and loans to eligible citizens for the construction of homes. The government claims more than 1.1 million of a planned 2 million houses have already been built under the first phase of the program. An additional 4.1 million houses are planned for phases two and three. At a price of \$650 to \$1000 per house depending on locale, the total program will cost four to six billion dollars. At the same time, the irrigation program aims to spend more than eleven billion dollars over five years on 26 major irrigation projects.

14. (SBU) There is consensus in Andhra Pradesh that the irrigation and housing programs are beset with corruption. On separate visits to Hyderabad we heard allegations of widespread graft from several neutral observers. An economist who studies the effectiveness of government programs in Andhra Pradesh said with only "four to five

companies executing the projects though the work of numerous small sub-contractors" and little oversight there are many opportunities for graft in the irrigation program. A reporter said he had no doubt that many people were profiting from it. He added that the scale of the corruption was beyond the norm for the state. "Typically five to seven percent is lost to corruption, but in Reddy's irrigation program that figure is more like fifteen to twenty percent," he said. Speaking about the housing and irrigation programs, an editor for a prominent daily also focused on the difference in the scale of the corruption in the current government. He said "We thought Naidu was bad, but that was child's play compared what is happening now."

EVERYBODY KNOWS, BUT DOES ANYONE CARE?

15. (SBU) Widespread corruption in the Congress government seems to an open secret in Andhra Pradesh, but the political impact is unclear. One media contact told us the man on the street expects it. He said: "corruption is inalienable. It is rather acceptable." Another reporter said citizens are fine with corruption so long as some the money flows down to them, adding that as long as Congress continues to spread the wealth it actually "strengthens its position in the state." A third journalist observed that at a minimum the Congress is consolidating its political base "offering small contracts to party workers, making them happy."

16. (SBU) COMMENT: Many elites are disgusted by the level of corruption in the Congress government. The sheer size of Reddy's signature programs, with literally billions of dollars at play every year, leaves much room for "leakage" to Congress party officials and their allies. But the size of the programs also means that even with a substantial percentage lost to corruption, a lot of money still must be making its way to the common man. With this in mind,

CHENNAI 00000640 002 OF 002

Congress seems confident that corruption will not be an effective issue for the TDP. When Naidu tried to raise it in the wake of the overpass collapse, Chief Minister Reddy took it right back at Naidu accusing him of corruption during his tenure. Congress appears willing to bet that people will focus on what they are getting from the programs and ignore the likelihood that corruption under Chief Minister Reddy dwarfs that which preceded him. END COMMENT.

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